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C O N F I D E N T I A L SECTION 01 OF 04 BAKU 001062

SIPDIS

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DEPT FOR EEB A/S SULLIVAN, EUR/CARC

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SUBJECT: PRESIDENT ALIYEV REVIEWS REGIONAL ENERGY WITH EEB  
A/S SULLIVAN

REF: BAKU 1007

Classified By: Ambassador Anne E. Derse per 1.4 (b,d).

¶1. (C) Summary: In an August 15 meeting with visiting EEB A/S Sullivan and the Ambassador, President Aliyev affirmed his support for U.S. energy security goals and said continued bilateral cooperation was essential. Characterizing his recent trip to Kazakhstan as "successful," Aliyev said the two countries had agreed to united their efforts on the development of Caspian infrastructure (with Kazakhstan insisting on compressor stations rather than a new Trans-Caspian gas pipeline) and had agreed to cooperate on energy initiatives in Georgia. Aliyev said Azerbaijan will work with Kazakhstan to ensure "practical implementation" of bilateral energy agreements signed in 2006 and 2007; Azerbaijan also will begin "practical talks" with Turkmenistan on the development of energy cooperation. While Azerbaijan is moving ahead on negotiating a gas transit agreement with Turkey, Aliyev expressed frustration with Turkey's recent TGI deal and again asked for U.S. help in dealing with Turkey. Aliyev also sought U.S. support for a possible Azerbaijan-Kazakhstan-Turkmenistan energy summit, characterizing it as a "serious political step." End summary.

¶2. (C) During a relaxed, 90-minute meeting on August 15 with visiting EEB Assistant Secretary Sullivan and the Ambassador, President Aliyev discussed regional energy developments. Sullivan and Aliyev also reviewed the bilateral economic relationship, and Iran (septel). USTDA General Counsel Jim Wilderooter, DOE's Tyler Tiller, EEB/ESC Rob Garverick, and Pol/Econ Chief (notetaker) also attended the meeting. Aliyev was accompanied by Economic and Energy Advisor Ali Asadov.

¶3. (C) Aliyev emphasized that the U.S. and Azerbaijan need to continue to coordinate their efforts on energy security, as their cooperation had been essential to the region's first major developments and is critical to develop more broad regional cooperation. Aliyev noted that his goal is to develop a strong country with rule of law, democracy, and an open, market economy. Azerbaijan's democratization and rapid economic growth, he said, present a great opportunity.

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KAZAKHSTAN  
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¶4. (C) Aliyev characterized his August 7-8 trip to

Kazakhstan as "very successful." Noting that "two important documents" had been signed, Aliyev said that he and Kazakh President Nazarbayev had agreed to unite their efforts on the development of Caspian infrastructure, including the development of new transportation networks, and also had agreed to cooperate on energy initiatives in Georgia, "to prevent other forces from taking advantage of the situation."

(Note: Local press reported that the two Presidents signed an agreement on strategic cooperation in the energy sector and a memorandum of understanding on the joint implementation of a trans-Caspian project. The agreement focuses on the transport of Kazakh energy and the joint use of Azerbaijan's energy infrastructure, while the MOU fleshed out details of the 2006 Azerbaijan-Kazakhstan IGA.)

15. (C) Turning to trans-Caspian issues, Aliyev said that SOCAR is ready to work with Kazakhstan's oil companies. He said Azerbaijan had offered Kazakhstan "broad cooperation," especially in transportation. However, Kazakhstan had offered compressor stations in place of a new trans-Caspian pipeline, arguing that Russia would be less likely to be upset by an LNG project. Aliyev said that Azerbaijan, on the other hand, is ready to build a trans-Caspian oil pipeline and potentially a gas pipeline as well.

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TURKMENISTAN  
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16. (C) Aliyev said that Azerbaijan's relationship with Turkmenistan is "improving," noting that the two countries had established a new economic commission and that plans were underway for Turkmenistan to reopen its embassy in Baku.

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Aliyev said that Azerbaijan is ready to provide Turkmenistan with modern facilities and infrastructure. During his recent discussions with Kazakhstani President Nazarbayev, Aliyev said that Nazarbayev believes that new Turkmen President Berdimukhamedov is "reasonable" and indicated that Kazakhstan would be willing to cooperate with Azerbaijan and Turkmenistan on energy issues.

17. (C) A/S Sullivan briefed Aliyev on his August 13-15 meetings in Turkmenistan, noting that the U.S. was looking at ways to engage President Berdimukhamedov. In his meeting with Berdimukhamedov and in a public address in Turkmenistan, Sullivan said he emphasized the importance of developing Turkmenistan's energy sector and new supply routes, particularly Trans-Caspian routes. Sullivan noted that he had told Berdimukhamedov that having only one or two buyers of Turkmen gas was not in Turkmenistan's interest. He also underscored that having greater diversity in trading and energy routes and partners helped to reinforce Turkmenistan's policy of neutrality. Berdimukhamedov was forward-leaning with regard to the energy and economic discussions he had with Sullivan, and also accepted U.S. Energy Secretary Bodman's invitation to Turkmen energy officials to visit Washington. In his discussions with Berdimukhamedov, Sullivan said that he cited Azerbaijan as a model that Turkmenistan might consider as it develops its energy sector, noting that the SOCAR and western energy company model would lead to greater long-term gains than the Gazprom model. Sullivan urged Aliyev to offer assistance to Turkmenistan to help guide it through this transition and learning period.

18. (C) Aliyev responded that Turkmenistan's transformation is very important for the entire region. Turkmenistan had been a closed state since its independence, and former President Niyazov had pursued a policy that was "the opposite of education." Now, Turkmenistan -- like Azerbaijan, Aliyev noted -- needs to diversify its economy. High oil and gas prices present a unique opportunity. Sullivan noted that he had encouraged Berdimukhamedov to undertake economic reforms when economic growth was strong, as it currently was in Turkmenistan.

¶9. (C) Reviewing Azerbaijan's strategic decision not to buy gas from Russia, Aliyev said that Azerbaijan had solved all of its energy problems. With Shah Deniz Phase I production, decreased domestic consumption, and plans to double SOCAR's gas production in the next two years, Aliyev said that Azerbaijan can now meet all of its own and Georgia's gas needs. Development of new infrastructure and transportation links with the Eastern Caspian is of great political importance, Aliyev said, although "frankly speaking, this creates a headache for us" and Azerbaijan needs to evaluate the "political costs" of its policies. Noting that Russia currently enjoys a monopoly on export routes from the Eastern Caspian, Aliyev said that the only other route is through Azerbaijan. "We need to evaluate all potential and existing risks ... and work with potential partners," Aliyev said, concluding that his government is "most interested in bringing these (Eastern Caspian) resources to Azerbaijan."

¶10. (C) Aliyev stressed that the U.S. and Azerbaijan need to continue their joint efforts on regional energy security. U.S. involvement, he said, is needed to ensure maximum results with minimum losses. He also stressed that the EU should be more active on energy issues. The EU, Aliyev said, is naive. When he raised energy issues during his 2004 visit to the EU, Aliyev said that EU officials at that time responded that Russia is their major energy supplier; they saw no need to engage with Azerbaijan. Now, however, Aliyev said EU officials are beginning to understand that Russia wants to monopolize Europe's energy supply in order to reestablish political dominance over Eastern Europe and the entire former Soviet sphere.

¶11. (C) Sullivan responded that the U.S. has been engaged in intense energy discussions with the EU, and that the U.S. and the EU issued a joint statement on energy following the US-EU

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summit that emphasized the importance of the Caspian region. Sullivan added that he had briefed EU officials just prior to his trip to Azerbaijan, and it appears that key EU countries realize that Russian actions are impacting areas outside of energy security.

¶12. (C) Sullivan noted that Russia and other G8 members last summer had agreed to the St. Petersburg Energy Security Principles which emphasize transparency, open investment, and diversity of supply routes and sources. However, Russian actions in the energy realm have not been consistent with their G8 commitments, which were "strongly reaffirmed" just two months ago in Heiligendamm, Germany at the June G8 summit. Sullivan added that Russian actions transcend energy security, and impact the independence and sovereignty of states like Azerbaijan, which is another reason why Caspian energy issues are important to the U.S.

¶13. (C) Aliyev agreed, noting that Russia "says the right things but behaves differently." Aliyev characterized Russian energy-related actions in Georgia as a "big mistake," stating that Russia probably "underestimated" Azerbaijan's relationship with Georgia (referring to Azerbaijan's decision to provide gas to Georgia in the winters of 2006 and 2007). Noting Russia's heavy-handed energy policy toward Belarus, Aliyev laughed that other CIS leaders say "if they treat Belarus like that, what can the rest of us expect?" The real face of Russian policy, Aliyev continued, is to "monopolize everything." Russia is talking to Qatar and Algeria, and wants to create a "belt of energy monopolists." However, Russia looks at Azerbaijan, Aliyev said, and sees a "tiny pipeline that can damage Russian plans." Azerbaijan's Shah Deniz field is a "huge opportunity," Aliyev continued. "We destroyed their myth of unique (gas) supply. The Russian's

mistake, Aliyev said, was "when they started to exert energy pressure on us."

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NEXT STEPS  
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¶14. (C) Aliyev said that Azerbaijan intends to work with Kazakhstan to ensure "practical implementation" of bilateral energy agreements signed in 2006 and 2007. Aliyev noted that this cooperation would include the development of large-capacity tankers for transport of Kazakh crude across the Caspian, as well as a joint refinery at Ceyhan. Azerbaijan also plans to begin "practical talks" with Turkmenistan. Although "we can't call it Trans-Caspian," Aliyev believes the two sides can initiate such talks "on a technical level." Finally, Azerbaijan intends to move ahead on a gas transit agreement with Turkey; a negotiating team, led by the Minister of Energy, and including officials from SOCAR and the Ministries of Foreign Affairs and Economic Development, already had begun talks with the Turks. Noting that Azerbaijan was deeply disappointed by Turkey's recent agreement with Greece and Italy to sell "Caspian gas" from Shah Deniz Phase I "as if we didn't exist," Aliyev said that Turkey now understands that the 2001 agreement is valid only for Shah Deniz Phase I gas. A new agreement, identifying Azerbaijan as the seller of Shah Deniz Phase II gas, is needed. (Note: Aliyev expressed similar frustration regarding Turkey and the TGI to visiting EUR DAS Bryza, reftel.)

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A PLEA FOR U.S. HELP  
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¶15. (C) Aliyev said he needed U.S. help in two specific areas. First, Aliyev expressed concern about Azerbaijan's ongoing efforts to negotiate a gas transit agreement with Turkey, saying that it "may be the most difficult part" of Azerbaijan's energy policy. Although Azerbaijan has good relations with Greece and Italy, "Turkey wants to redistribute gas from Azerbaijan." Complaining again that Turkey's gas agreement with Greece and Italy referred to "Caspian" rather than Azerbaijani gas, Aliyev asked for U.S. help in moving forward on a gas transit agreement with Turkey. The EU, he added, was interested in working with Azerbaijan, not Turkey, on a gas agreement. Sullivan noted

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that there has been some discussions about the EU hosting a energy summit in Brussels and inviting key Caspian gas players to move forward on energy security cooperation. Aliyev responded that the summit was a good idea, adding that the Lithuanians were organizing a similar summit in October, with a broad "global" guest list, that he planned to attend.

¶16. (C) Aliyev also sought U.S. support for a possible Azerbaijan-Kazakhstan-Turkmenistan trilateral energy summit. Characterizing the possible meeting as a "serious political step," Aliyev said it would send a strong signal of rebuke to the energy summit that Putin had hastily organized in Kazakhstan in May, in response to the Cracow energy summit. Kazakhstani President Nazarbayev, who agrees with the idea, had promised to talk to Turkmen President Berdimukhamedov about the summit, but Aliyev hoped that the U.S. also would engage the Turkmen on this issue. "I am ready to meet whenever, wherever they want," Aliyev said, "including in Ashgabat." Sullivan noted that the U.S. would look for an opportunity to raise this issue with the Turkmen government.

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COMMENT  
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¶17. (C) It is clear from Aliyev's comments to Sullivan that U.S. and Azerbaijan energy interests truly are aligned (ref).

Aliyev's analysis of Russian motives in the region also makes it clear that Azerbaijani energy policy is about far more than energy; it is part of Azerbaijan's concerted effort to flex its new-found muscles and keep a resurgent Russia from exerting influence on Azerbaijan's independence and sovereignty. Aliyev's continuing pique over Turkish negotiating tactics, however, indicates that much work remains to be done to realize our shared vision for bringing Caspian gas to Europe. Continued U.S. engagement is essential.

¶18. (U) A/S Sullivan cleared this message.  
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